MIM AND ITS FUTURE

Comments taken from recent addresses† to The Securities Institute of Australia by Mr Bruce Watson, then Managing Director and now Chairman of MIM Holdings Limited.

STRATEGY AND OBJECTIVES

MIM's broad objectives are to maintain efficient and technologically advanced mining and mineral processing operations. Although we are now diversifying, we remain a strongly focused company. It is not our intention to diversify into areas that are unrelated to mining. We are, and will remain, in the business we know best and our mining operations will continue to emphasise the metals and energy sectors of that business.

The public view of our activities in the past two years or so has been heavily dominated by our diversification into coal. In addition to some comments about our coal developments, I also wish to remind you of some important activity that has been, and is to take place, at Mount Isa.

MIM's INTERESTS

First, a quick thumbnail sketch of our activities, many of which will be familiar to you.

- Our head office is based in Brisbane.
- In Mount Isa we mine copper, silver, lead and zinc as well as smelt the first three of those minerals.
- In Townsville, we operate a copper refinery and have interests in transport, materials handling and stevedoring. Townsville is of course the port through which all our products from Mount Isa are shipped.
- Our Collinsville mine supplies steaming and coking coal to the domestic market and is soon to commence exporting coking coal.
- Shortly we will open the Newlands steaming coal mine which is connected by rail to Collinsville and will ship through the new port of Abbot Point.
- We have recently opened the Oaky Creek mine which is supplying coking coal to three European joint venture partners as well as to steel mills in Japan.
- In Western Australia MIM has joint venture interests in the Goldsworthy iron ore project, the Agnew nickel mine and in the Teutonic Bore copper-silver-zinc project.

Our international interests now include:

- An investment of just under 20 per cent of the stock of the large American mining company ASARCO;
- A silver/lead refinery in London;
- Metal trading companies in London and Bermuda;
- A zinc refinery and a zinc products plant at Datteln in West Germany; and
- A lead marketing subsidiary in Singapore, which markets lead which has been toll refined in Japan.

Our exploration interests range from oil drilling in Bass Strait to the search for base minerals throughout Australia and Papua New Guinea.

1982/83

As you all know our annual results and first quarter progress report were both recently published. Just for a moment I would like to recap the more significant features of both those announcements.

First the 1982/83 annual results.

MIM's consolidated net earnings during the last financial year were $39 million. This compared with a loss of over $10 million for the 1981/82 year.

The result represented a 4 per cent return on shareholders funds and is of course clearly unsatisfactory. MIM has however, generally speaking, performed better than the industry average.

A breakup of our group's capital expenditure and investments for 1982/83 which totalled $648 million, shows that our coal projects at Newlands, Collinsville, Abbot Point and at Oaky Creek, when taken together, accounted for $519 million or just over 80 per cent of the total.

Our progress report for the twelve weeks to 18 September, which was released last week, showed an unaudited net profit of $10.0 million. While this was an

† 1. Evening meeting address to the New South Wales Division, Sydney, September 26, 1983.

2. Luncheon Meeting address to the Victorian Division, Melbourne, October 27, 1983.

improvement on the position for the corresponding period of 1982/83, it clearly represents a continuation of the unsatisfactory return on investment of the last couple of years, and of course, reflects poor metal prices. I will make a further comment on metal prices a little later in this address.

For a moment or two let me return to two of our most important areas of activity — Mount Isa and our coal projects.

MOUNT ISA

Our most important operation is, and will remain, the Mount Isa mine and associated mineral processing complex.

In addition to Mount Isa being the world's largest silver-lead mine and amongst the largest world copper mines, it is also one of the most mechanised.

In the fiercely competitive mining business MIM is committed to remain a low cost producer and therefore it will remain a highly competitive one.

The effects of the expansion of our activities at Mount Isa became apparent during 1982/83.

The company mined 4.8 million tonnes of copper ore from which it produced 151 000 tonnes of copper; it mined 3.6 million tonnes of silver-lead-zinc ore from which it produced 152 000 tonnes of crude lead, 414 000 kilograms of refined silver (in the UK) and 310 000 tonnes of zinc concentrate.

Our production forecasts for 1983/84 are for a continuation of this upward trend. Just briefly they are to mine 5.5 million tonnes of copper ore from which we will produce 155 000 tonnes of copper and mine 3.7 million tonnes of lead-zinc-silver ore to produce 180 000 tonnes of lead, 320 000 tonnes of zinc concentrate and 450 000 kilograms (or roughly 450 tonnes) of silver.

An extensive exploration programme is continuing in the Mount Isa region.

Already very significant reserves of lead-silver and zinc have been identified at the Hilton mine, 20 kilometres north of Mount Isa. Trial mining will begin at Hilton in 1985. Our aim is to have the Hilton mine commercially operational by the early 1990's when our lead-silver reserves reduce at Mount Isa.

Hilton is one of the very significant projects in the Mount Isa area. The other is the internal shaft we propose to sink from the bottom of the existing workings to provide access to the deep copper orebodies. The shaft which will be 500 metres deep, will take the the depth of the Isa mine to 1800 metres. We are currently working on issues such as rock stress and methods to overcome the hot working environment which we estimate will be between 60 and 70 degrees centigrade at that depth. We are working on an airconditioning system which will involve about 5 megawatts of electricity for airconditioning.

COAL

The other major area of company activity is in coal and specifically the construction of the Newlands, Collinsville, Abbot Point Project and the recently completed Oaky Creek Joint Venture.

First Oaky Creek.

Oaky Creek is a joint coking coal venture between MIM (which has 79 per cent) and three European steel producers. The mine, which has an initial annual production capacity of 2.25 million tonnes, has contracts with its three European partners and with Japanese steel mills.

The mine had a permanent workforce of 242 people at June 30, and when design capacity is reached this number will increase to about 370. The township of Tieri is close to completion and by 1984 it is expected to house 1200 people.

Oaky Creek has been exporting coal through Gladstone as an interim measure until the new joint user coal terminal and 3.8 kilometre loading trestle at Dalrymple Bay is operational in December.

The most important new coal activity is the development of the $800 million Newlands/Collinsville/Abbot Point project. In money terms this is the largest coal development yet undertaken in Australia.

We are pleased with progress on this project which is on schedule and within budget. We expect to open Newlands and the Collinsville extension in December and our first shipments will take place from Abbot Point in April 1984.

This project involves:

- The construction of the Newlands mine and associated coal preparation plant which will initially produce 2 million tonnes of steaming coal, rising to 4 million in 1985. The first coal has been mined with shallow overburden being removed by scrapers and bulldozers. A site stockpile is now being laid down. The dragline commenced operations earlier this week. The first railings from Newlands are scheduled to commence in December to build the stockpile at Abbot Point.

- Secondly, the construction of an entirely new township called Glenden. This town is already partly occupied and when finished will house the 400 people who will comprise the Newlands workforce, as well as their families.
- Thirdly, the expansion of our existing operations at Collinsville to produce 1.0 million tonnes of coking coal for export in addition to 1.3 million tonnes of steaming coal for the North Queensland domestic market.
- Fourthly, the construction of a coal terminal at the new port of Abbot Point which will have an initial capacity of 6.5 million tonnes per annum with provision for expansion to 24 mtpa. Abbot Point will be able to handle ships of 165 000 DWT.
- Finally, the construction or upgrading of a new railway line linking these mines plus general infrastructure like roads, electricity, water etc.

THE OUTLOOK

I turn now to the second part of this address which is about the outlook for our products and a comment on the competitive nature of our operations.

The outlook for our products is of course heavily dependent on the general international economic climate.

In my view the recovery is underway but will not be as strong as some people believe. Having said that I should say that there *are* prospects of modest improvements in metal markets as the US recovery gains strength.

However, this view must also be balanced by the fact that current large world metal stocks will have to be reduced if we are to have significant price rises.

Overall I must say that I remain cautious about the durability of the US recovery. What I believe is missing from the American economic news to date is evidence that private investment spending has begun to increase. Until that emerges the recovery will lack the depth it needs to be sustained.

In any event MIM's position as a low cost producer of a range of metals and energy products should ensure that we benefit from this recovery.

I should, at this point, make some comment on metal prices.

The prices for MIM's metals have had mixed fortunes over the last few months. Copper and silver prices have fallen to the lowest levels this year. Lead has improved only slightly from its very low level. Zinc has been holding up fairly well.

As far as copper is concerned, expectations of improved demand has encouraged high-cost producers to stay in the market or to open up previously closed facilities. Demand has not increased as fast as was hoped and stocks have been built up. This has forced the price down. Prices should move quickly when consumption picks up from its current very low levels.

Silver faces similar problems to copper with a historically large stock overhang, particularly on Comex. Lead shows signs of improvement with a significant pickup in both new and replacement battery demands. Zinc has improved in the last few months and special high-grade zinc is in tight supply.

Whatever happens in these volatile markets in the next few months, I believe that we are well placed because MIM has over the years been willing to invest in new technology and to expand our production accordingly. This philosophy has served us well in Mount Isa and certainly our commitment to technology will continue in our coal developments.

Let me further illustrate those comments a little.

COMPETITIVENESS

First take the most important area of our activity — Mount Isa.

Our strategy has been to develop the Isa mine to be among the most efficient and hence low cost of the world's producers.

In addition to a heavy emphasis on the application of the latest technology, both in mining and processing, we are pursuing an intensive exploration program around the Mount Isa region.

The proposed development of the deep copper orebodies is the result of our past exploration efforts.

As I indicated earlier, we have also identified sizeable silver/lead/zinc reserves at Hilton.

The advantages of large silver-lead-zinc reserves within 20 kilometres of a modern established and highly efficient processing complex are of course apparent.

The reserves at Hilton will allow us many years of maximum plant utilisation at Mount Isa.

Other areas of the metalliferous chain which have also been developed to a high degree of efficiency are:

- The Townsville Copper Refinery which has been updated using locally developed technology. We have sold this technology around the world;
- Earlier this year we opened a new zinc concentrate bulk handling terminal in Townsville to improve our handling systems and storage capacity for the increased zinc tonnages from Mount Isa;
- Late last year we purchased interests in a zinc refinery and products plant in West Germany. At the same time we entered into long term zinc concentrate contracts in Europe;
- Again in the last 12 months we have further developed our marketing stategy. We have taken steps to open up the lead market in Asia with a toll smelting arrangement with a Japanese company and through a Singapore-based marketing subsidiary;
- In London, good progress has been made refurbishing the Britannia Refinery; and
- Finally, our purchase of an interest in Geominerals, which is a metal trading company, will complement our knowledge and operating ability in the metal marketing area. I should add that this emphasis on marketing has recently been reflected in our internal head office structure with the establishment of a market support group.

A similar operating philosophy applies to our activities in the coal area.

The Oaky Creek and Newlands and Collinsville projects are being constructed (or in the case of Oaky Creek has been completed) within budget and on schedule. The first shipment from Oaky Creek took place in April this year, some 2 months ahead of schedule. We are hopeful that the first shipment from Newlands and Collinsville might also be ahead of schedule.

Oaky Creek particularly, has given us an entry into the European market and this has been further strengthened by some European sales of Newlands coal. We see longer term possibilities in this area.

In the long term I believe that coal will play a strong role in the international trade of commodities. I acknowledge of course that there have been some short term difficulties.

For example, although some 4 billion tonnes of coal was produced throughout the world in 1982, only some 270 million tonnes was actually traded. Because the US steel industry operated at approximately half capacity in 1982, US producers had very large stockpiles of coal which they sold at give-away prices. These US producers placed some 35 million tonnes of coking coal, or an additional 13 per cent of the totally traded coal, on what was an already depressed market. The settlements that occurred earlier this year between Japanese customers and producers reflected this depressed market price.

I believe we should see this market situation for what it is, and that is a short term problem.

In these circumstances it is easy to forget the natural advantages that many *new* Australian mining projects have in relation to those in other countries.

In the case of Newlands the mine has:

- low overburden rations;
- good seam thickness;
- good coal quality; and
- is located relatively close to the coast.

Abbot Point has the advantages of being:

- the most northerly coal export port in Australia;
- it is a dedicated facility handling two products with large stockpile capacity; and
- technically it is on par with world standards with designed ability which can be expanded relatively easily; It can also handle 165 000DWT ships at a load capacity of 4 600 tonnes per hour.

Because of these advantages, we have confidence in this project.

Newlands will be a low cost producer and Abbot Point will provide us with competitive access to world markets.

I should add that in addition to the more obvious advantages of this project it has been designed and will be operated by MIM. I believe we can claim to have a good reputation in the mining industry as being efficient operators.

CONCLUSION

Ladies and gentlemen, in summary might I say that MIM remains confident of the future.

We are confident for a number of reasons.

- First, we are and will remain with the business we know and that is mining and mineral processing. We believe that with careful selection of our mining projects we can continue to provide satisfactory return on equity;

- Second, we are a very efficient metals producer of long standing and we have the proven ability to weather difficult market conditions. For example, during 1982, in the face of plant closedowns throughout the world, our Mount Isa operations actually increased productivity and showed a profit. Many of you would know that this was one of the worst periods for metals prices for many years;
- Thirdly, we are relatively low cost producers of each of our products. We therefore have an ability to speak with some confidence of the future despite cyclical peaks and troughs; and
- Fourthly, given this efficiency, and I believe a return to better metal prices, we also expect to be generating substantial cash flow from our new coal developments.

BOOK REVIEW

AUSTRALIAN MINING, MINERALS AND OIL

1983 Edition

by

Alan Deans

This new, third edition is a further improvement still, on the volume which first appeared some four years ago under the description of Alexander and Hattersley's work of the same name. Like the two prior editions, the 1983 update version is handsomely presented in hardbound form.

There are 602 pages of considerable detail, with much of the information being quite up-to-date. In addition to the listed Australian resources companies, many of the principal unlisted and international companies are also included. There are a number of additional features such as a useful glossary, conversion factors, a list of mining industry organisations, details of the principal related government departments and quasi-government authorities (it is interesting that we see the Northern Lands Council in this bracket), tertiary institutions, and separate state Stock Exchange and AASE member firm details.

One of the most helpful aspects is a 29 page company contact directory which includes full addresses, telephone and telex numbers, as well as details of directors, and registered and head offices of all companies listed. No more convenient source of such detailed information is known to this reviewer, and it will be much used by many readers of JASSA, such as those involved in merchant banking, stockbroking and general company contact. There is a good depth of coverage on many specific mining and oil development projects.

Apart from the major 460 page directory covering mining and oil companies, there is a 90 page section which gives useful detail of 53 separate categories of resources. Like the prior editions, but perhaps in a slightly more usefully formatted style, the 1983 edition of Australian Mining, Minerals and Oil is one of the few such works that will fall, for many people, into the "must have" bracket. It is refreshing to see that the whole of the publication process was undertaken in Australia, for sale at a very competitive price: for this reader, the volume is quite favourably priced at $95.00. It is now published by The Law Book Company Limited.

Neil Cole

This book is published by The Law Book Company Limited, 44-50 Waterloo Road, North Ryde, N.S.W. Price: $95.00